RESPONSE

to the

1988 REPORT

of the

AUDITOR GENERAL

October 1988

Province of British Columbia
Ministry of Finance and Corporate Relations

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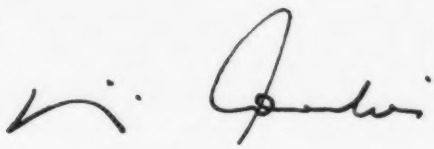
STATEMENT BY THE HONOURABLE MEL COUVELIER ON THE 1988 REPORT OF THE AUDITOR GENERAL

I take pleasure in presenting the government's response to the 1988 Report of the Auditor General to the Legislative Assembly. This publication describes the action taken, or planned, to address the recommendations contained in the report.

I am encouraged to note that the excellent working relationship and demonstrated high degree of cooperation between the Office of the Auditor General and the staff of my ministry continues to be a model for other accounting and auditing offices.

The format of this response includes the related excerpts from the Auditor General's Report as well as a cross reference to the report. I believe that this enhancement has improved the clarity of this year's response and makes it easier for the reader to follow.



Mel Couvelier
Minister of Finance and Corporate Relations

A. GOVERNMENT'S FINANCIAL STATEMENTS - SPECIFIC FINANCIAL STATEMENT MATTERS FOR 1986/87

	Reference to the Auditor General's 1988 Report

A.1 GOVERNMENT FINANCIAL STATEMENT STANDARDS

"We recommend that steps be taken towards adopting those PSAAC recommendations regarding general standards of financial statement presentation for governments that have not yet been fully implemented."

Page 25
2.33

The Public Sector Accounting and Auditing Committee (PSAAC) was established in March 1981 by the Board of Governors of The Canadian Institute of Chartered Accountants:

- to consider matters of public sector accounting and auditing theory and practice and to render on its own authority such pronouncements as it considers in the best interest of the community as a whole; and
- to provide for the growth of Canadian accounting and auditing literature for the public sector by encouraging specialized studies.

Senior staff of the Office of the Comptroller General have been actively involved with PSAAC and the development of standards for reporting by governments.

The Auditor General's Report recognizes that the annual financial statements of the Province of British Columbia have, in recent years, been considered among the best for senior levels of government in Canada. This has been so, in spite of the fact that there have not been authoritative standards for governmental financial statement presentation in Canada until late 1986.

In November 1986, PSAAC issued Public Sector Accounting Statement 3 entitled "General Standards of Financial Statement Presentation for Government".

This Statement's general reporting principles are intended to ensure government financial statements in Canada communicate relevant, reliable, clearly presented, timely and consistent information to users.

The Statement contains 35 recommendations, of which, in the Auditor General's opinion, 22 have been fully implemented in the preparation of the government financial statements.

	Reference to the Auditor General's 1988 Report

There are some differences of opinion with the Auditor General on the extent of implementation and the applicability of some of the remaining recommendations. These will be discussed and resolved.

A.2 RETROACTIVE LEGISLATION

"It is therefore recommended that the use of retroactive financial legislation be avoided in future." — Page 28, 2.41

The Auditor General's concerns have been noted. However, it is the prerogative of the Legislative Assembly to pass whatever legislation it considers necessary to achieve its policy objectives.

B. STATUS OF FINDINGS AND RECOMMENDATIONS ABOUT GOVERNMENT FINANCIAL STATEMENT AUDIT MATTERS CONTAINED IN PREVIOUS ANNUAL REPORTS

	Reference to Previous Reports of the Auditor General
B.1 FINANCIAL STATEMENT PRESENTATION	
B.1.1 Trust Funds Financial Statement	
"Recommendation that the Trust Funds Financial Statements include only those assets being held in trust for third parties and over which the Government does not have any power of appropriation."	1986 - 1.30
The Government's position, supported by a legal opinion, continues to be that disclosure of the Government's own sinking funds is appropriate. These sinking funds are not subject to appropriation since there is no provision for payment out of the sinking funds other than by payment to debt holders.	
"Recommendation that the trust funds of the Public Trustee and Official Administrator, the Crop Insurance Fund, and the Land Registry Assurance Fund be accounted for and reported as actively managed trust funds."	1986 - 1.36
This issue has been resolved as the Trust Funds Financial Statements will not be published commencing with the 1987/88 Public Accounts.	
B.2 GOVERNMENT ACCOUNTING POLICIES	
B.2.1 Recording of Cash Receipts	
"Recommendation that the Government amend its accounting policy to ensure that cash receipts which arise from transactions of a similar nature and substance are recorded consistently in the accounts. The Estimates should then be developed in accordance with this policy."	1985 - 3.15 1986 - 2.10

	Reference to Previous Reports of the Auditor General

The Government has reviewed the policies relating to the recording of cash receipts and has concluded that recoveries to votes in general, and $10 votes in particular, serve a valuable purpose in increasing the accountability of program managers. For this reason, no change is proposed to the current policy.

The general trend to reporting financial transactions on a gross basis has been recognized. The 1988/89 Estimates reflect a move in this direction with the restatement of Medical Services Plan premiums and business (school purposes) property taxes to revenue rather than recoveries to votes. Review of this policy will continue and adjustments made when necessary.

B.3 MINISTRY OF ENERGY MINES AND PETROLEUM RESOURCES

B.3.1 Leave Management System

"Recommendation that if the centralized leave management system is to be relied upon, steps be taken to ensure that the information emanating from the system is accurate and reliable, and that unnecessary manual systems in ministries, which duplicate the central system, be eliminated." — 1982 - 3.16

The Government agrees leave information should be accurate and reliable. The centralized leave management system under test at the time of the response to the 1987 Annual Report of the Auditor General proved to be unworkable. Government Personnel Services Division is in the process of decentralizing leave management recording to each ministry.

B.4 MINISTRY OF FINANCE AND CORPORATE RELATIONS

B.4.1 Reallocation of Funds

"Suggestion that, while ministries are responsible for obtaining required approvals for reallocation of funds, monitoring of such transactions is necessary to ensure that Treasury Board rules are being observed." — 1985 - 4.10

	Reference to Previous Reports of the Auditor General

Approval of the reallocation of funds between Standard Objectives of Expenditure (STOBs) within sub-votes is no longer required. The approval of the Secretary to Treasury Board continues to be required prior to the transfer or commitment of funds between sub-votes. Discussions are taking place to resolve the problem concerning the reallocation of funds without prior approval. Nonetheless, in all cases proper documentation and approval is always received to support reallocations.

3.4.2 Segregation of Trust Monies

"Recommendation that all trust monies administered by the Government, and held through and in the Government's main bank account, be segregated from the assets of the Government." — 1985 - 4.17, 1986 - 3.54

The Government does not agree with this recommendation. There is no legal or administrative reason to segregate trust monies into separate bank accounts.

3.4.3 Special Funds and Accounts

"Recommendation that a comprehensive review be conducted of all statutory expenditure authorizations and all special accounts, to determine the extent to which their spending provisions could be alternatively accommodated through the Financial Administration Act *and thus be subject to annual review and approval by the Legislative Assembly."* — 1986 - 3.9

"Recommendation that, if such authorities or accounts are deemed necessary, their need and use be subject to periodic review."

As was indicated in the 1986 Response to the Auditor General, five per cent of expenditures consist of Special Funds and Accounts. These expenditures are multi-year appropriations which do not lapse at the end of a fiscal year. The total amount that can be spent out of a Fund or Account, however, is determined by the Legislature with specific legislation. As a result, the Legislature has full opportunity to debate or limit these expenditures when

	Reference to Previous Reports of the Auditor General

the specific legislation is introduced or to subsequently place further limits and reviews on these expenditures through Government or Private Members' bills amending the relevant legislation. In addition, Government's intention for annual spending on these statutory appropriations is reported in the annual Estimates.

B.4.4 Recoveries Policy

"Recommendation that section 20(3) of the Financial Administration Act, *which deals with items that are credits or recoveries, be studied to assess its interpretation and implication. Consideration should also be given to amending section 20(3) to require the actual receipt, or reasonable assurance thereof, of estimated credits or recoveries before the equivalent spending is allowed."* — 1986 - 3.16

Each application to spend anticipated excess recoveries under section 20(3) of the Financial Administration Act is individually reviewed by Treasury Board. The sponsoring ministry is required to present the case that the additional recovery will, in fact, be realized. No change in the wording of the Act would increase the vigilance with which applications are currently reviewed.

B.4.5 Borrowing Orders in Council

"Recommendation that the Orders in Council (OICs) which authorize borrowing contain and clearly identify the maximum face value of the securities to be issued." — 1986 - 3.25

OICs authorizing long-term borrowing contain and clearly identify the maximum principal amount that may be outstanding for the securities to be issued.

The OIC and subsequent amendments authorizing short-term borrowing are currently being consolidated and revised to clarify any ambiguity regarding outstanding amounts. Completion prior to March 31, 1989 is anticipated.

	Reference to Previous Reports of the Auditor General

B.4.6 Non-Residential School Taxes

"Recommendation that the Ministry review legislation to determine whether or not settlement provisions concerning Non-Residential School Taxes (NRST) are equitable and meet the needs of the Ministry and municipalities, and that it devise more conclusive measures to resolve the status of outstanding balances." — 1987 - 2.44

A new regulation to the Education (Interim) Financing Act has been brought into force in 1988 and the Ministry of Finance and Corporate Relations is implementing this regulation. As a result, outstanding balances are being reduced.

The administrative policy which gave rise to the outstanding balances is being amended.

B.4.7 Authority for Sinking Funds

"Recommendation that the Financial Administration Act be clarified with respect to the requirements of having sinking funds authorized by OIC and of having sinking fund assets segregated from other assets." — 1987 - 2.49

Legislation was enacted on June 29, 1988 which provides for the Minister of Finance and Corporate Relations to set the terms and conditions which will apply to the creation, management and application of sinking funds.

"Recommendation that, regardless of the legislative requirements, the Government approve both the creation of sinking funds and the conditions that apply to them."

A new sinking fund policy has been developed and approved by the Minister of Finance and Corporate Relations and has been instituted. Any deviation from this policy must first be approved by the minister.

	Reference to Previous Reports of the Auditor General

B.5 MINISTRY OF MUNICIPAL AFFAIRS

B.5.1 Restructure Grants

"Recommendation that adequate statutory authority be provided for grant payments which are made to municipalities by the Ministry from the Revenue Sharing Fund for policing costs in non-urban areas within municipal boundaries." — 1986 - 3.87

The ministry is considering more desirable alternatives to the recommendation that the authority for grant payments be embodied in legislation. However, a long term solution may not be imminent.

B.5.2 Sewerage Assistance and Water Facilities Grants

"Comment that corrective actions taken by the Ministry should, when completed, effectively eliminate the problem of overpayments of sewerage assistance and water facilities grants." — 1987 - 2.39

The Ministry has completed implementation of corrective action required in response to recommendations resulting from the Auditor General's Internal Control Review. The action taken by the Ministry is detailed in section C.2 of this response.

C. SYSTEMS OF FINANCIAL AND ADMINISTRATIVE CONTROL, AND COMPLIANCE WITH LEGISLATIVE AND RELATED AUTHORITIES

	Reference to the Auditor General's 1988 Report

C.1 MINISTRY OF FINANCE AND CORPORATE RELATIONS: PROVINCIAL TREASURY INVESTMENT SYSTEM

C.1.1 Safeguarding of Cash and Investments

"We felt that the logging in of the securities could be improved." — Page 45, 2.71

A securities receipt log has been developed to replace a typed receipt form. This allows daily recording of the gross amount received from the bank.

C.1.2 Management of Capital

"We recommend to the Ministry that a daily review of trades be made to allow prompt remedial action in the event of trades being made outside established guidelines." — Page 45, 2.76

All long term trades are now being reviewed daily by one other professional trader. Short term trades are not reviewed daily by a second professional trader due to the high volume of trades. However, investment administration staff monitor purchases daily to ensure compliance with the Approved List. Any request by the Short Term Investment Manager for a new asset code designation must first be approved by the Director, Investments. In addition, the Investment Analyst sends a review of short term investment holdings to senior management weekly.

C.1.3 Authorization and Support of Transactions

"We recommend that either written confirmations of verbal requests for capital withdrawals be obtained from trust clients or each client be asked to provide an approved list of payee accounts to which funds may be disbursed." — Page 47, 2.86

Provincial Treasury has obtained from each trust client a list of accounts to which capital withdrawals may be paid.

	Reference to the Auditor General's 1988 Report

C.1.4 Recording of Transactions

"We recommend that data entry clerks be specifically instructed not to release prelists for input without complete and proper approvals and not to accept transaction tickets without all appropriate signatures." — Page 48, 2.98

Data entry clerks have been so informed and the policy, procedure manual updated.

"We recommend that particular attention be paid to backdated transactions. Transactions backdated beyond one month should be subject to specialized review before input, including a review of the impact of the entry on the transactions history of the relevant investment issue." — Page 48, 2.100

The data entry clerk has been instructed to ensure that all transactions dated more that 5 days prior to the entry date are signed as having been reviewed by accounting management personnel. In addition, Information Systems Branch has been asked to investigate further computerized solutions to the problem.

C.1.5 Data Processing

System Changes:

"We recommend a formal DBA position be established to include in the above responsibilities. This position would review new application programs or changes to existing programs and authorize BCSC to move these into production. This independent review would reduce the risk of unauthorized access to data and programs and, therefore, provide more assurance on the completeness, accuracy and security of the computerized system." — Page 51, 2.123

The Information Systems Branch has hired a Data Base Administrator (DBA) whose duties will encompass all divisions of the Ministry. Provincial Treasury user personnel test and review program changes prior to the changes being moved into production.

	Reference to the Auditor General's 1988 Report
"We recommend that Treasury establish a rigorous method for checking test results before they approve (sic) changes be moved into production. This would provide more assurance that the changes will produce the desired results and not have any adverse effects. Test results should be retained so that they can be referred to if subsequent errors do occur."	Page 52 2.125

The Information Systems Branch has instituted a policy requiring users to sign off all test results prior to changes being moved into production.

Backup and Recovery Plans:

"We recommend that the Ministry develop, document and test plans at three levels. First, the Emergency Plan or immediate response to the problem. Second, the Backup Plan or computer hardware, software and data needed to restore operations. And third, the Recovery Plan, or procedures to resume normal operations. The plan should identify all information and resources required to resume critical processing and back these up appropriately. It should include documented manual or micro-computer procedures for the critical processing activities in case the automated system cannot be brought back within the 24 hour time constraint. Treasury and ISB staff should receive adequate training with regard to recovery procedures. The Ministry should, when developing a plan, consider the adequacy of BCSC's Recovery Management Group's plan for restoring computer service in the event of a major outage."	Page 52 2.130

The Information Systems Branch is developing a disaster recovery plan.

C.2 MINISTRY OF MUNICIPAL AFFAIRS: SEWERAGE ASSISTANCE AND WATER FACILITIES GRANTS PAYMENTS SYSTEM

C.2.1 Errors in Grant Payments

"We recommend to the Ministry that it perform an in-depth review of sewerage assistance and water facilities grant payments for the period from 1 April 1986 to 31 December 1987."	Page 54 2.133

	Reference to the Auditor General's 1988 Report

The Ministry will verify 1987/88 claims as part of the testing and implementation of the new automated claim verification subsystem.

C.2.2 Ensuring Conditions are Fulfilled

"We recommend that the Ministry request more cost information from municipalities and review this information to ensure that the terms and conditions of the original application have been met." — Page 55 2.144

The Ministry will review the application form and make the revisions considered necessary to provide reasonable assurance that the terms and conditions of the original application are met.

C.2.3 Verification of Grant Claims

Lack of Procedures Manual:

"We recommend to the Ministry that they update and approve the procedures manual and distribute it to all pertinent financial staff." — Page 56 2.148

The Ministry has now finalized a financial procedures manual for the Revenue Sharing Fund grant programs and it has been distributed to pertinent ministry staff.

Inadequate Review of Claims:

"We recommend that all claims be reviewed by a second person before payment and that the review be documented." — Page 56 2.152

Over the past year, the Ministry has implemented the Municipal Debt System on its minicomputer and is currently developing an automated claim verification subsystem which will eliminate clerical errors from the review process. This verification system will integrate debt data, assessment data and foreign exchange data and will perform the arithmetic calculations related to each claim. This system will be implemented for fiscal 1988/89 and should eliminate clerical errors.

	Reference to the Auditor General's 1988 Report

The Ministry will verify 1987/88 claims as part of the testing and implementation process for the new system. Supervisory review will also be increased as will other control procedures such as prior year claim comparisons, etc.

Lack of Supporting Documentation:

"We recommend that procedures be introduced to prevent claims being processed unless the applicant provides the required supporting documentation." — Page 57 2.156

In situations where back-up documentation has been omitted, rather than withhold a payment, the Ministry will pay the claim and request the additional documentation. If necessary, recoveries or adjustments to subsequent payments will be made.

C.2.4 Payment of Grants

"We recommend that personnel giving payment authority be provided with full supporting documentation along with the cheque requisitions." — Page 57 2.160

Ministry procedures require that the payment authority be provided with full supporting documentation. Payment authorities are now required to initial the supporting documentation as an indication that this documentation has been supplied and reviewed.

C.2.5 Accounting for Grant Payments

"There are some good controls over the accounting distribution and there are procedures in place to reconcile payment details with information recorded in the Government's central accounting system. However, we noted that payment authorities reviewing the cheque requisitions may not always be thorough. This could result in incorrect or inappropriate accounting treatment of grant payments." — Page 57 2.162

Ministry procedures require that the payment authority review the voucher coding and supporting documentation. Compliance with this procedure will be reviewed on an ongoing basis.

C.2.6 Keeping Track of Commitments

"We found adequate detail but noted that there is no check to ensure the records include all commitments. Also, we noted that the commitment records are not regularly reconciled with other financial reports. As a result, inaccurate information could go unnoticed, possibly leading to decision errors."

Page 57
2.164

The Ministry maintains detailed commitment records of grants approved and revises these records on an ongoing basis. Procedures related to the maintenance, reconciliation and revision of these records will be reviewed and documented early in fiscal 1988/89.

C.3 MINISTRY OF SOCIAL SERVICES AND HOUSING: SHELTER AID FOR ELDERLY RENTERS (SAFER) PAYMENT SYSTEM

C.3.1 Establishment of Eligibility and Entitlement

"We recommend that the Ministry require the applicant to submit sufficient, appropriate documentation in support of his claim for SAFER benefits. Alternatively, the Ministry could independently check certain information on the application and require documentation for other pertinent data."

Page 60
2.179

The Ministry's Information Sharing Agreement with Canada limits the use of federal Old Age Security and Guaranteed Income Supplement information to calculating GAIN for Seniors benefits. The Ministry is studying the situation to determine if it is more practical to ask permission to use the federal tapes to confirm eligibility for SAFER or to require that applicants submit documentary evidence to support their claims. After all factors are analyzed, the appropriate course of action will be followed.

	Reference to the Auditor General's 1988 Report
"We recommend that the Ministry prepare a formalized and comprehensive procedures manual covering all aspects of the SAFER program operations."	Page 60 2.181
The Ministry agrees with this recommendation. A manual has been prepared in draft form and Income Assistance Division is reviewing the procedures in conjunction with their review of SAFER policy.	

C.3.2 Verification and Approval of Applications

"We recommend that the Ministry review its spending authority matrix for appropriateness, and ensure that only the authorized persons initiate SAFER expenditures."	Page 61 2.186
The Ministry disagrees that the adjudicators are exercising spending authority. The adjudicators collect data, review the applications and then recommend whether an application should be approved. Spending authority for this program remains with the Manager of Computer Payments and Reconciliations and with the Supervisor of Services to Seniors, and is exercised on the journal voucher representing the computer cheque production request.	

C.3.3 Processing of Changes

"We recommend that the Ministry comply with the Regulation."	Page 61 2.194
The Ministry has reconsidered the requirement that all changes be reported in writing by the client and will be requesting that the regulation be changed.	

C.3.4 Payment of Grants

"We recommend reconciliation of the number of active clients between reporting periods and regular comparison of master file data with client files."	Page 62 2.197

	Reference to the Auditor General's 1988 Report
The Ministry agrees with this recommendation and has been doing this annually with the reapplications. Procedures will be amended to ensure that the reconciliations are formalized and recorded in the future.	
"We recommend that the Ministry review its payment authority matrix for appropriateness, and ensure that only the authorized persons requisition payments."	Page 62 2.199
The Ministry agrees with this recommendation. On-line cheque production control procedures have been clarified and only the designated payment authority enters the job request. It should be noted that the adjudicators do not initiate expenditures as they have not been delegated spending authority.	
C.4 MINISTRY OF FORESTS AND LANDS: SMALL BUSINESS ENTERPRISE PROGRAM - REVENUE SYSTEM	
C.4.1 Billing of the Correct Rates to Operators	
"We recommend to the Ministry that the computer input forms be reviewed and approved by the appropriate personnel and evidence of this review be recorded on those forms."	Page 66 2.222
The Ministry agrees with the recommendation and has issued a directive to all regions requiring review and approval of input forms and evidence that such a review has occurred.	
C.5 MINISTRY OF HEALTH: VITAL STATISTICS DIVISION REVENUE SYSTEM	
C.5.1 Collection and Deposit of Fees	
"We recommend that staff other than those directly responsible for handling cash receipts be assigned to independently verify cash balancing procedures."	Page 69 2.238
The Ministry agrees with the recommendation and has implemented procedures whereby the Accounting Supervisor independently verifies cash balancing procedures.	

		Reference to the Auditor General's 1988 Report
D.	ECONOMY AND EFFICIENCY IN THE ADMINISTRATION OF PUBLIC FUNDS, AND PUBLIC ACCOUNTABILITY Responses by both the Ministry of Education and Ministry of Energy, Mines and Petroleum Resources to the Auditor General's comprehensive audits are contained in the 1988 report of the Auditor General.	Pages 73 - 172
E.	AUDITS OF PUBLIC BODIES It is encouraging to note that no control weaknesses were noted in the report and that no issues relating to compliance with legislation and Government directives needed to be brought to the attention of the Legislative Assembly.	Pages 187 - 190

F. PROGRESS INDEX

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C.1.4	Recording of Transactions	48	Implemented
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C.2.4	Payment of Grants	57	Implemented
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